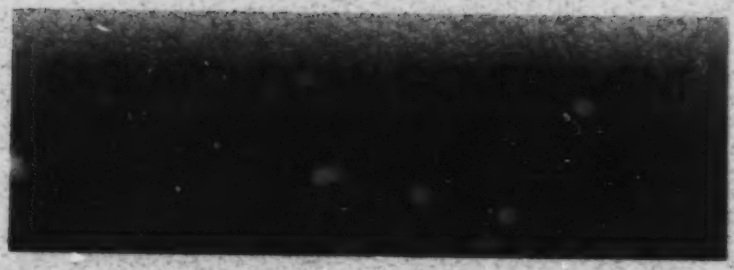


ANNUAL REPORT

Year Ended
December 31,

1 9 9 1

92-05627/

Letter of Transmittal

To Her Honour
The Honourable Sylvia O. Fedoruk
Lieutenant Governor of the Province of Saskatchewan

Madam:

I have the honour to submit herewith the Annual Report of the Saskatchewan Government Growth Fund Management Corporation for the year ended December 31, 1991, including the financial statements duly certified in the form approved by the Treasury Board, all in accordance with the Crown Corporations Act.

I have the honour to be,

Your obedient servant,

Hon. Dwain Lingenfelter
Minister Responsible
Saskatchewan Government Growth
Fund Management Corporation

Chairman's Report

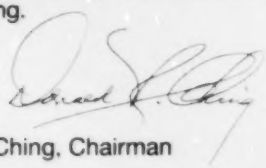
The Saskatchewan Government Growth Fund Management Corporation (SGGFMC) is responsible for the management and administration of its subsidiary, the Saskatchewan Government Growth Fund Ltd. (The Fund). The corporation engages the services of the Saskatchewan Economic Development Corporation (SEDCO) to provide advice and personnel to ensure the ongoing management of the Fund.

The Fund is designed to provide a vehicle for foreign investors to invest in Saskatchewan businesses, particularly in rural areas. It also facilitates qualification of the investor as a permanent Canadian resident under the Immigrant Investor Program pursuant to the Canadian Immigration Act.

In its role as a conduit of foreign investment, the Fund had by December 31, 1991 approved 11 loans to Saskatchewan companies involved in nine economic development or expansion projects, helping to create 160 permanent jobs.

During 1991, the Fund received approval to market a second and third offering of preferred shares in the Fund at the $150,000 level. The expiry date for both offerings has been set at December 31, 1992. Due to the short marketing period, the Fund plans to offer preferred shares by way of public offerings in Hong Kong. It will also use a worldwide network of sales agents to attract potential investors.

As of December 31, 1991 the second offering had attracted sales of nine units totalling $1,350,000. A number of investors had also made partial payments to reserve a unit in the Fund. Upon full subscription of the second offering, the Fund will begin marketing the third offering.



Don Ching, Chairman

Management's Responsibility for Financial Statements

The accompanying financial statements of the Saskatchewan Government Growth Fund Management Corporation have been prepared by management in accordance with generally accepted accounting principles, and necessarily include some amounts based on informed judgment and management estimates. Financial data presented elsewhere in this annual report is consistent with that in the financial statements.

The corporation's independent auditors, Deloitte & Touche, have examined the financial statements of the corporation. The scope of their examination, and their opinion on whether these financial statements present fairly the corporation's financial position and operating results, are given in the Auditors' Report.

Ensuring the integrity and objectivity of financial information is an integral part of management's responsibility to the ongoing operation. Management maintains an appropriate system of internal accounting controls, policies, and procedures to provide reasonable assurance that all financial transactions are recorded on a timely basis with proper approvals, and result in reliable financial statements.

The Board of Directors has reviewed and approved these financial statements.

On behalf of management,

G. K. Benson
Vice President, Finance & Administration
Saskatchewan Economic Development Corporation

Auditors' Report

To the Members of the
Legislative Assembly,
Province of Saskatchewan:

We have audited the consolidated statement of financial position of Saskatchewan Government Growth Fund Management Corporation as at December 31, 1991 and the consolidated statements of income, retained earnings, and changes in financial position for the year then ended. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the corporation as at December 31, 1991 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Deloitte + Touche

Chartered Accountants

March 2, 1992
Regina, Saskatchewan

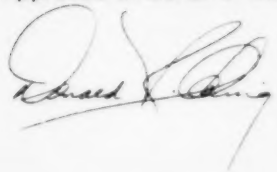
SASKATCHEWAN GOVERNMENT GROWTH FUND MANAGEMENT CORPORATION

Consolidated Statement of Financial Position

As at December 31, 1991

	1991	1990
Assets		
Cash and short-term deposits	$ 10,106,565	$ 11,005,582
Accounts receivable and accrued interest on short-term deposits	108,320	93,069
Commissions paid in advance	744,375	852,150
Cash and short-term deposits held in escrow (Note 3)	3,203,831	2,687,011
Loans (Note 4)	19,478,254	15,108,651
	$ 33,641,345	$ 29,746,463
Liabilities and Shareholders' Equity		
Accounts payable and accrued liabilities	$ 345,112	$ 163,473
Commissions payable	100,125	81,750
Accrued interest payable on subscriptions	1,289,984	951,666
Preferred share subscription deposits (Note 5)	2,962,019	24,082,000
Dividends payable on preferred shares	450,937	65,210
	5,148,177	25,344,099
Shareholders' Equity		
Equity advances (Note 6)	31	11
Capital stock (Note 6)	25,160,250	2,390,250
Retained earnings	3,332,887	2,012,103
	28,493,168	4,402,364
	$ 33,641,345	$ 29,746,463

Approved on behalf of the Board:



Chairman

See accompanying notes to financial statements

SASKATCHEWAN GOVERNMENT GROWTH FUND MANAGEMENT CORPORATION

Consolidated Statement of Retained Earnings

For the Year Ended December 31, 1991

		1991		1990
Retained earnings, beginning of year	$	2,012,103	$	503,495
Net income for the year		1,706,510		1,573,818
Dividends on preferred shares		(385,726)		(65,210)
Retained earnings, end of year	$	3,332,887	$	2,012,103

See accompanying notes to financial statements

SASKATCHEWAN GOVERNMENT GROWTH FUND MANAGEMENT CORPORATION

Consolidated Statement of Income

For the Year Ended December 31, 1991

	1991	1990
Revenue		
Interest - loans	$ 1,351,726	$ 174,969
Interest - cash and short-term deposits	1,324,709	2,748,530
Other income	157,967	22,000
	2,834,402	2,945,499
Expenses		
Interest	738,572	1,030,463
Management fee	298,576	9,800
Legal and professional	69,920	66,178
Administration	20,824	15,780
Financing fee	—	249,460
	1,127,892	1,371,681
Net income for the year	$ 1,706,510	$ 1,573,818

See accompanying notes to financial statements

SASKATCHEWAN GOVERNMENT GROWTH FUND MANAGEMENT CORPORATION

Consolidated Statement of Changes in Financial Position

For the Year Ended December 31, 1991

	1991	1990
Operating activities		
Net income	$ 1,706,510	$ 1,573,818
Net changes in non-cash balances relating to operations		
Accounts receivable and accrued interest on short-term deposits	(107,189)	127,525
Accounts payable and accrued liabilities	181,639	108,657
Accrued interest payable on subscriptions	338,318	684,756
	2,119,278	2,494,756
Loans		
Disbursements	(4,551,398)	(15,091,715)
Repayments	273,734	22,222
Cash used in operating activities	(2,158,386)	(12,574,737)
Financing activities		
Equity advance	20	10
Proceeds from preferred share subscriptions	2,549,269	8,960,015
Sales commissions	(773,100)	(1,008,150)
Cash provided by financing activities	1,776,189	7,951,875
Decrease in cash during year	(382,197)	(4,622,862)
Cash position, beginning of year	13,692,593	18,315,455
Cash position, end of year	$ 13,310,396	$ 13,692,593
Cash position, end of year consists of:		
Cash and short-term deposits	$ 10,106,565	$ 11,005,582
Cash and short-term deposits held in escrow	3,203,831	2,687,011
	$ 13,310,396	$ 13,692,593

See accompanying notes to financial statements

SASKATCHEWAN GOVERNMENT GROWTH FUND MANAGEMENT CORPORATION

Notes to the Consolidated Financial Statements

December 31, 1991

1. Status of the corporation

Under the authority of an Order-in-Council, the corporation was established in January 1989 for the purpose of establishing and managing the Saskatchewan Government Growth Fund Ltd. (SGGF). SGGF was incorporated in January 1989 under the Saskatchewan Business Corporations Act and has been accepted as a government administered venture capital fund under the Federal Government's Immigrant Investor Program. Under this program, SGGF was established to raise $100,000,000 through three offerings of preferred shares in the capital stock of the Fund. As marketing of the first offering has been completed, SGGF has received approval to issue two additional confidential offering memoranda. These offerings each consist of a minimum of 24 and a maximum of 233 units, with each unit representing 150,000 four percent preferred shares at $1 per share.

Under the terms of the confidential offering memoranda, SGGF is required to invest in loans to Saskatchewan-based businesses.

Upon winding up of the Fund, pursuant to the Articles of Incorporation of SGGF, any assets remaining after redemption or retraction of preferred shares will be distributed to a charity or charities recognized under the Canadian Income Tax Act.

2. Significant accounting policies

Consolidation principles

The consolidated financial statements include the accounts of the corporation's subsidiary, Saskatchewan Government Growth Fund Ltd. (SGGF). All inter-company transactions have been eliminated.

Commissions paid in advance

According to the terms of a marketing agreement entered into by SGGF, a commission is legally payable to the independent marketing agent selling the unit upon the issuance of the investor's immigrant visa. An agreement was reached between the corporation and the marketing agent to pay certain commission amounts prior to investor visa issuance. These payments have been recorded as commissions paid in advance. When the commission becomes legally payable upon the issuance of the investor's visa, the amounts paid are removed from commissions paid in advance.

Accrued interest payable

SGGF accrues interest on its preferred share subscription deposits from the date of deposit to the date of the preferred share. Investors under the first offering receive interest at a rate of four percent, while investors under the second and third offering receive interest at a rate equal to the escrow agent's prime lending rate less three percent.

Accrued dividends payable

SGGF accrues dividends on its preferred shares at an annual rate of four percent from the date of the preferred share.

Allowance for doubtful accounts

Accounts are reviewed on a regular basis. Where a potential loss is identified, the exposure is compared to the estimated value of the security and, if appropriate, a provision established. Interest revenue is not accrued for accounting purposes on loans where a write-off is anticipated. To date no provision for losses has been deemed necessary.

3. Cash and short-term deposits held in escrow

Under the terms of the confidential offering memoranda, a portion of the preferred share subscription deposits are held in escrow to meet minimum offering and holdback requirements, in accordance with Employment and Immigration Canada program guidelines.

Those investors whose application for a visa is rejected are entitled to the return of their subscription amounts plus any accumulated and unpaid interest or dividends calculated to the date of repayment.

4. Loans

	1991	1990
Loan principal receivable	$ 19,347,158	$ 15,069,493
Interest accrued	118,828	27,102
Loan costs receivable	12,268	12,056
	$ 19,478,254	$ 15,108,651

Included above is a loan in the amount of $12,143,794 (1990 - $11,212,700) which Saskatchewan Economic Development Corporation (SEDCO) has agreed to purchase in August, 1994 at fair market value as determined at that time. Loan principal receivable includes $1,067,000 (1990 - $136,000) of interest which has been capitalized on this loan in accordance with the loan agreement.

5. Preferred share subscription deposits

Preferred share subscription deposits as at December 31:

	1991	1990
Preferred share subscription deposits - preferred share not yet issued	$ 1,655,519	$ 22,151,500
Preferred share subscription deposits - share issuance costs	1,306,500	1,930,500
	$ 2,962,019	$ 24,082,000

As at December 31, 1991, $29,259,269 (1990 - $26,710,000) preferred share subscription deposits had been received by SGGF. Upon preferred share issuance, preferred share subscription deposits net of share issuance costs are reclassifed to capital. To date, 183 investors (1990 - 17) accounting for $25,160,250 (1990 - $2,390,250) in deposits, net of share issuance costs, have received preferred shares. Share issuance costs, representing commissions paid or payable on units, are removed upon investor visa issuance. Share issuance costs on investors who had received their visa by December 31, 1991 amounted to $1,137,000 (1990 - $237,750).

6. Share capital

Equity advances

The advances are non-interest bearing and repayable to the Province of Saskatchewan at the discretion of the Treasury Board.

The authorized share capital of the corporation as at December 31 is:

Common shares - unlimited number of voting common shares.

Preferred shares - unlimited number of four percent, cumulative, redeemable, retractable preferred shares. The preferred share units are redeemable at the option of the holder after a three year ownership period for $112,500 plus unpaid dividends subject to the provisions of the Saskatchewan Business Corporations Act. The preferred shares are both redeemable and retractable after a five year ownership period for $150,000 plus unpaid dividends.

The share capital issued at December 31 is:

		1991		1990
27,450,000 preferred (1990 - 2,550,000 shares)	$	25,160,250	$	2,390,250

During the year, 24,900,000 preferred shares were issued to investors. Share issuance costs in the amount of $2,289,750 have been deducted from preferred share capital since inception.

7. Other income

Included in other income is $137,391 (1990 - nil) which resulted from negotiations, between the corporation and the marketing agent, to limit interest payable on commissions previously recorded.

8. Income taxes

The corporation is a provincially owned crown corporation and accordingly is income tax exempt.

9. Commitments

The total amount of loans approved but not yet disbursed is $2,100,681.

10. Related party transactions

Included in these financial statements are income and expense amounts resulting from routine operating transactions conducted at prevailing market prices with various Saskatchewan controlled departments, agencies and corporations with which the corporation is related. Account balances resulting from these transactions are included in the Statement of Financial Position and are settled on normal trade terms.

The corporation engages the services of SEDCO to provide advice, information and personnel needed to ensure the ongoing management of the Fund. Total fees paid or payable to SEDCO during the year amount to $298,576 (1990 - $9,800).

During 1990, a financing fee in the amount of $249,460 was paid to SEDCO for acting in the capacity of an agent for the Fund by providing short term financing for a SGGF loan. The loan was subsequently bought back by the Fund when sufficient funds were available. The Fund subsidized the difference between SEDCO's published interest rate at the time and the actual loan interest rate.

11. Comparative figures

Certain comparative figures have been reclassified to conform with current financial statement presentation.

Corporate Data

Address:

1. Saskatchewan Government Growth Fund Management Corporation
   Don Ching, Chairman
   300 - 2400 College Avenue
   Regina, Saskatchewan, Canada
   S4P 1C8

2. Saskatchewan Government Growth Fund Ltd.
   1106 Winnipeg Street, P.O. Box 5024
   Regina, Saskatchewan, Canada
   S4P 3V7

   (a) Legal Counsel
   McDougall, Ready
   700 Royal Bank Building
   1020 - 11th Avenue
   Regina, Saskatchewan S4P 0J3

   (b) Escrow Agent
   Bank of Montreal
   1800 Scarth Street
   Regina, Saskatchewan S4P 2G3

   (c) Auditors
   Deloitte & Touche
   Chartered Accountants
   Suite 1700 - 1874 Scarth Street
   Regina, Saskatchewan S4P 4B3

   (d) Distribution Agent
   Nexus Marketing Corp.
   714 - 363 Broadway
   Winnipeg, Manitoba R3C 3N9

   (e) Transfer Agent
   Royal Trust Corporation of Canada
   2201 - 11th Avenue
   Regina, Saskatchewan S4P 2B8